

**VIRGINIA TOURISM AUTHORITY
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Virginia Tourism Authority for the year ended June 30, 2002, found:

- the financial statements are presented fairly in all material respects;
- no internal control matters that we consider to be material weaknesses; and
- no instances of noncompliance with material laws and regulations that are required to be reported.

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October 30, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Virginia Tourism Authority Board Members
901 East Byrd Street
Richmond, Virginia 23218-0798

We have audited the accounts and records of the **Virginia Tourism Authority**, as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the General Fund, a major fund, of the Virginia Tourism Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2002, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Virginia Tourism

Authority as of June 30, 2002, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1C, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2001.

The Management's Discussion and Analysis on pages five through nine is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Tourism Authority as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia,

Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 12, 2002.

AUDITOR OF PUBLIC ACCOUNTS

WHC:whb
Whb:35

MANAGEMENT'S DISCUSSION AND ANALYSIS

VIRGINIA TOURISM AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2002

The discussion and analysis for the Virginia Tourism Authority's financial performance provides an overview of its financial activities for the year ended June 30, 2002. Management believes the information presented is accurate in all material aspects and that all necessary disclosures to enable the reader to obtain an understanding of the Authority's financial activities have been included.

GOVERNMENTAL & ORGANIZATION STRUCTURE

The Virginia General Assembly created the Virginia Tourism Authority in 1999 for the promotion of tourism and film production in the Commonwealth necessary to increase the prosperity of its citizens. It is a public body corporate and political subdivision of the Commonwealth authorized to do business as the Virginia Tourism Corporation.

A fifteen-member board of directors provides policy guidance to the management of the Authority. The Governor appoints twelve members, the Chairman of the Board of Directors and the Executive Director, who reports through the Secretary of Commerce and Trade. The Secretary of Commerce and Trade, Secretary of Finance, and Secretary of Natural Resources also serve on the board.

The Authority is located in Richmond, Virginia with other offices in Washington, D.C. and Abingdon, Virginia. In addition, it manages ten state welcome centers located strategically around the state and the Capitol Bell Tower in Richmond to provide information to persons traveling to and through Virginia.

The Authority has four organizational divisions of management, which are Administration, Support, and Visitor Services; Marketing and Promotions; Tourism Development; and the Virginia Film Office. Responsibility for each of these areas is with managing directors who oversee Authority activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements provide the reader with an overview of the Virginia Tourism Authority (Authority) in a manner similar to private sector business.

The Statement of Net Assets presents information about the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the Authority's financial position is improving or declining.

The Statement of Activities presents how the Authority's net assets changed during the fiscal year. The Authority records all changes in net assets when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that would result in cash flows in past or future fiscal years. Some examples are accrued interest earned but not yet collected (revenue), earned but unused employee vacation leave (expense) and advance collections for advertising and program fees (revenue).

Fund Financial Statements

The Authority reports its financial activities within governmental funds. A fund is a set of related accounts used to report resources segregated for specific activities or objectives. The Authority, like other political subdivisions of the Commonwealth of Virginia, uses fund accounting to ensure and demonstrate compliance with financial and legal requirements.

The governmental funds report on essentially the same functions reported as governmental activities within the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of appropriated and earned resources and balances available at the end of the prior fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Reconciliations between Government-Wide and Fund Financial Statements

Two reconciliations clarify the differences between the government-wide financial statements and the fund financial statements. The first, found on the Balance Sheet, explains the difference between the total fund balance on the Balance Sheet and total net assets as shown on the Statement of Net Assets. The second, found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities, identifies the differences between the net change in fund balances on the fund-based statement and the change in net assets on the government-wide based statement. Both statements describe in sufficient detail the amounts and reasons for the differences.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as an indicator of an organization's financial position. The Authority's assets exceeded liabilities by \$1,030,271 at the close of the fiscal year ended June 30, 2002, as shown below. The major components of the Authority's net assets were cash deposits and advance deposits for advertising and marketing efforts for late summer and fall campaigns.

| Net Assets | |
|---|---------------------|
| Assets: | |
| Current and other assets | \$ 1,727,683 |
| Capital assets | <u>218,580</u> |
| Total Assets | <u>1,946,263</u> |
| Liabilities: | |
| Other liabilities | 374,130 |
| Long-term liabilities | <u>541,862</u> |
| Total Liabilities | <u>915,992</u> |
| Net Assets: | |
| Invested in capital assets, net of related debt | 173,585 |
| Unrestricted | <u>856,686</u> |
| Total Net Assets | <u>\$ 1,030,271</u> |

Net assets of the Authority increased slightly during the fiscal year as depicted below.

Changes in Net Assets

| | |
|------------------------------------|---------------------|
| Revenues: | |
| Charges for Services | \$ 543,262 |
| Operating Grants and Contributions | 1,054,861 |
| General Fund Appropriations | 18,217,886 |
| Other | <u>158,223</u> |
| Total Revenues | <u>19,974,232</u> |
| Expenses: | |
| Administration | 2,195,856 |
| Marketing & Promotion | 8,674,210 |
| Consumer & Visitor Services | 1,269,958 |
| Tourism Development | 793,998 |
| Tourism Development-Grants Program | 5,875,000 |
| Virginia Film Office | 645,539 |
| Pass-Through Payments | <u>469,610</u> |
| Total Expenses | <u>19,924,171</u> |
| Increase in Net Assets | 50,061 |
| Net Assets, July 1, 2001 | <u>980,210</u> |
| Net Assets, June 30, 2002 | <u>\$ 1,030,271</u> |

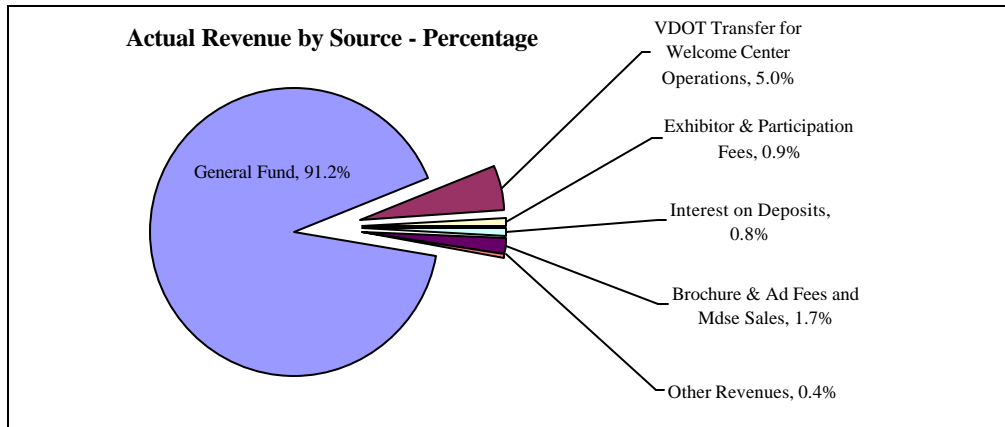
General Fund Budgetary Highlights

The Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis provides information on the Authority's original budget and the final budget. The Final Budget represents the Authority's operating budget during the fiscal year. The final budgeted revenues and expenditures are compared to cash-basis actual results by revenue source and major program activity.

REVENUES

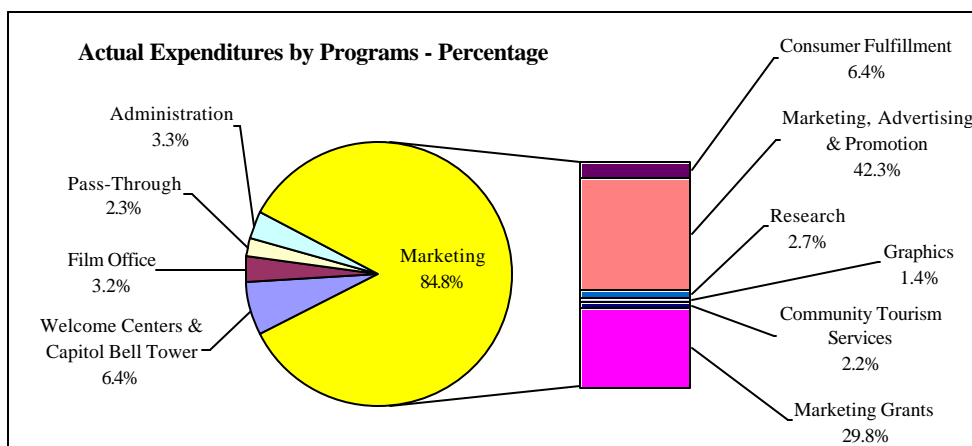
As a political subdivision of the Commonwealth of Virginia, the Authority's primary funding source is from the General Fund of the Commonwealth appropriated by the General Assembly. Budget reductions decreased the general fund appropriation from the prior year by approximately \$1.6 million. The Authority modified its revenue and expenditure plans accordingly. Carryover funds of \$1.18 million were used to help offset the reduction in general fund appropriations. Such funds were applied to non-recurring program costs. The Authority also eliminated vacant positions and some discretionary spending to offset permanent budget reductions. The Authority anticipates additional reductions over the next two fiscal years because of declining Commonwealth revenues.

The Virginia Department of Transportation transfers funds (\$1 million) annually to support the operations of the State's ten Welcome Centers managed by the Authority. Fees are also collected from Virginia attractions that place promotional brochures and display advertising within these Centers. Other revenue sources include trade-show participation fees, interest on deposits, and miscellaneous sales and reimbursements.



EXPENDITURES

Authority expenditures for the fiscal year decreased from prior year levels by \$574,000. Legislated pass-through appropriations, funds designated for certain entities by the General Assembly, dropped by \$1.2 million. Marketing expenditures increased by \$810,000 over the prior year, reflecting the Authority's efforts to recoup lost visitation because of the September 11, 2001, terrorism events. Authority paid for advertising and marketing efforts to spur interest in visiting Virginia within targeted domestic markets and international audiences prior to June 30, 2002. The following chart depicts the percentage of actual expenditures for the fiscal year ended June 30, 2002, by major programmatic function.



Notes To The Financial Statements

The Notes to the Financial Statements provide additional information essential to gain a complete understanding of the financial information presented in the government-wide and fund financial statements. They describe the nature of the Authority's reporting entity and the relationship to the Commonwealth of Virginia as a whole; the basis on which the financial statements were prepared; and the methods used for presentation. The notes also provide explanations of accounts with significant balances.

Request for Information

The financial report provides an overview of the Virginia Tourism Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President, Virginia Tourism Corporation, 901 East Byrd Street, Richmond, Virginia 23218.

FINANCIAL STATEMENTS

VIRGINIA TOURISM AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2002

| | Governmental Activities |
|---|----------------------------|
| Assets: | |
| Cash and cash equivalents (Note 2) | \$ 943,409 |
| Petty cash and travel advances | 1,475 |
| Other receivables | 666 |
| Prepaid expenses | 782,133 |
| Capital assets, net of accumulated depreciation (Notes 1-D and 5) | 218,580 |
| | <hr/> |
| Total assets | 1,946,263 |
| | <hr/> |
| Liabilities: | |
| Accounts payable | 176,406 |
| Accrued payroll | 68,622 |
| Payroll withholdings and sales tax payable | 219 |
| Unearned revenue (Note 1-E) | 128,883 |
| Noncurrent liabilities: | |
| Compensated absences (Note 1-F and 8) | |
| Due within one year | 293,987 |
| Due in more than one year | 73,593 |
| Installment purchases payable (Note 7) | |
| Due within one year | 11,130 |
| Due in more than one year | 33,865 |
| Pension Liability due in more than one year (Note 9) | 129,287 |
| | <hr/> |
| Total liabilities | 915,992 |
| | <hr/> |
| Net Assets: | |
| Invested in capital assets, net of related debt | 173,585 |
| Unrestricted | 856,686 |
| | <hr/> |
| Total net assets | \$ 1,030,271 |
| | <hr/> |

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2002

| | | Program Revenues | | Net (Expense) |
|--|---------------|-------------------------|-------------------------------------|---|
| | Expenses | Charges for Services | Operating Grants & Contributions | Revenue and Changes in Net Assets |
| Governmental Activities: | | | | |
| Administration and finance | \$ 2,195,856 | \$ 13,859 | \$ 279,000 | \$ (1,902,997) |
| Marketing and promotion | 8,674,210 | 180,559 | - | (8,493,651) |
| Tourism development | 6,668,998 | 4,811 | 25,861 | (6,638,326) |
| Consumer and visitor services | 1,269,958 | 344,033 | 750,000 | (175,925) |
| Virginia Film Office | 645,539 | - | - | (645,539) |
| Pass-through payments | 469,610 | - | - | (469,610) |
| Total governmental activities | \$ 19,924,171 | \$ 543,262 | \$ 1,054,861 | (18,326,048) |
| General revenues: | | | | |
| Revenue provided by the General Fund of the Commonwealth (Note 4) | | | | 18,217,886 |
| Interest revenue | | | | 157,743 |
| Net gain on sale and disposal of capital assets | | | | 480 |
| Total general revenues | | | | 18,376,109 |
| Change in net assets | | | | 50,061 |
| Net assets July 1, 2001 | | | | 980,210 |
| Net assets June 30, 2002 | | | | \$ 1,030,271 |

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
As of June 30, 2002

| | General Fund |
|---|--------------|
| Assets: | |
| Cash and cash equivalents (Note 2) | \$ 943,409 |
| Petty cash and travel advances | 1,475 |
| Other receivables | 666 |
| Prepaid expenses | 782,133 |
| | <hr/> |
| Total assets | \$ 1,727,683 |
| | <hr/> |
| Liabilities and Fund Balances | |
| Liabilities: | |
| Accounts payable | \$ 176,406 |
| Accrued payroll | 68,622 |
| Payroll withholdings and sales tax payable | 219 |
| Unearned revenue (Note 1-E) | 128,883 |
| | <hr/> |
| Total liabilities | 374,130 |
| | <hr/> |
| Fund balances: | |
| Unreserved | 1,353,553 |
| | <hr/> |
| | <hr/> |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in general fund activities are not financial resources and, therefore, are not reported in the general fund. | 218,580 |
| Noncurrent liabilities including compensated absences, installment purchases payable and pension liability, are not due in the current period and therefore are not reported in the general fund. | (541,862) |
| | <hr/> |
| Net assets of the general fund | \$ 1,030,271 |
| | <hr/> |
| | <hr/> |

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2002

| | <u>General Fund</u> |
|---|----------------------------|
| Revenues: | |
| Revenue provided by the General Fund of the Commonwealth (Note 4) | \$ 18,217,886 |
| Revenue provided by the Virginia Department of Transportation | 1,000,000 |
| Participation fees | 183,878 |
| Welcome Center advertising fees | 340,014 |
| Interest revenue | 157,743 |
| Other revenue | <u>74,231</u> |
| Total revenues | <u>19,973,752</u> |
| Expenditures: | |
| Administration and finance | 2,236,553 |
| Marketing and promotion | 8,655,371 |
| Tourism development | 6,659,522 |
| Consumer and visitor services | 1,342,999 |
| Virginia Film Office | 627,920 |
| Pass-through payments | <u>469,610</u> |
| Total expenditures | <u>19,991,975</u> |
| Revenues over (under) expenditures | <u>(18,223)</u> |
| Other financing sources: | |
| Financing proceeds | 23,003 |
| Sale of fixed assets | 480 |
| Gain on foreign currency transactions | <u>147</u> |
| Total other financing sources | <u>23,630</u> |
| Net Increase in Fund Balance | 5,407 |
| Fund balance, July 1, 2001 | <u>1,348,146</u> |
| Fund balance, June 30, 2002 | <u><u>\$ 1,353,553</u></u> |

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2002

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|----|----------------------|
| Net increase in fund balance-total governmental fund | \$ | 5,407 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | | 133,445 |
| The issuance of long-term debt (installment purchases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt. | | (12,173) |
| Some expenses reported in the statement of activities (increases in net pension obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | (83,272) |
| The decrease in compensated absences reported in the statement of activities is not a current financial resources and, therefore, is not reported as a financial resource in governmental funds. | | <u>6,654</u> |
| Change in net assets of governmental activities | \$ | <u><u>50,061</u></u> |

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
For the Fiscal Year Ended June 30, 2002

| | General Fund | | | |
|--|------------------|---------------|---------------|--|
| | Budgeted Amounts | | Actual | Variance Favorable (Unfavorable) |
| | Original | Final | | |
| Revenues: | | | | |
| Revenue provided by the General Fund of the Commonwealth - (Note 4) | \$ 19,786,356 | \$ 18,217,886 | \$ 18,217,886 | \$ - |
| Revenue provided by the Virginia Department Transportation | 1,000,000 | 1,000,000 | 1,000,000 | - |
| Participation fees | 220,805 | 220,805 | 183,878 | (36,927) |
| Welcome Center advertising fees | 294,000 | 294,000 | 337,498 | 43,498 |
| Interest revenue | 260,000 | 260,000 | 157,743 | (102,257) |
| Other revenue | 37,500 | 37,500 | 74,231 | 36,731 |
| Total revenues | 21,598,661 | 20,030,191 | 19,971,236 | (58,955) |
| Expenditures: | | | | |
| Administration and finance | 2,646,111 | 2,408,276 | 2,313,025 | 95,251 |
| Marketing and promotion | 8,035,145 | 9,355,932 | 9,348,320 | 7,612 |
| Tourism development | 7,282,332 | 6,707,202 | 6,660,698 | 46,504 |
| Consumer and visitor services | 2,242,275 | 1,521,372 | 1,339,725 | 181,647 |
| Virginia Film Office | 842,798 | 756,358 | 662,587 | 93,771 |
| Pass-through payments | 550,000 | 464,610 | 469,609 | (4,999) |
| Total expenditures | 21,598,661 | 21,213,750 | 20,793,964 | 419,786 |
| Revenues over (under) expenditures | - | (1,183,559) | (822,728) | 360,831 |
| Other financing sources (uses): | | | | |
| Financing proceeds | - | - | 23,003 | 23,003 |
| Sale of fixed assets | - | - | 480 | 480 |
| Gain on foreign currency transactions | - | - | 147 | 147 |
| Total other financing sources (uses) | - | - | 23,630 | 23,630 |
| Revenues and other sources over (under) expenditures and other uses | - | (1,183,559) | (799,098) | 384,461 |
| Fund balance, July 1, 2001 | - | 1,183,559 | 1,743,763 | 560,204 |
| Fund balance, June 30, 2002 (Note 3) | \$ - | \$ - | \$ 944,665 | \$ 944,665 |

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA TOURISM AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Tourism Authority was established on July 1, 1999, by an act of the General Assembly and operates as an authority in accordance with the Code of Virginia (Sections 2.2-2315 through 2.2-2326). The Authority is authorized to do business as the "Virginia Tourism Corporation" in accordance with Section 2.2-2315. The Authority's major activities are to encourage, stimulate, and promote the tourism and film production industries of the Commonwealth.

Virginia Tourism Authority is a component unit of the Commonwealth of Virginia. A separate report is prepared by the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. Accordingly, the financial statements of the Authority are included in the financial statements of the Commonwealth as a discretely presented component unit.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The Statement of Net Assets and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Program revenues include 1) charges for services consisting of participation fees and brochure rental fees and 2) a transfer from Department of Transportation for support of Welcome Centers.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due.

The Authority reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all the Authority's financial resources.

C. GASB 34, GASB 37, and GASB 38 Implementation

The Authority has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. The primary impact of the implementation of these statements on the Authority is a change in the presentation format of the financial statements; the addition of government-wide financial statements using the economic resources measurement focus and accrual basis of accounting; the addition of a Management’s Discussion and Analysis as required supplementary information; the presentation of the Authority’s original budget as well as the final budget and actual results in the budgetary basis financial statement; and certain additional note disclosures.

D. Capital Assets

Capital assets are defined by the Authority as those assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of three to ten years.

E. Unearned Revenue

Unearned revenue is comprised of advertising display fees that were received at June 30, 2002, but were not yet earned.

F. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Authority’s employees, but not taken at June 30, 2002. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*. This statement requires the accrual of the following: Sick leave earned by employees who, while not currently vested for payment, will probably attain the years of service required to vest for payment and Social Security and Medicare taxes to be paid by the Authority on all accrued compensated absences.

G. Budgets and Budgetary Accounting

The Authority’s budget was established primarily by the 2000 Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2002, which is the second year of the biennium ending June 30, 2002. No payments were made to the Authority out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Virginia Tourism Authority bank accounts in accordance with the Code of Virginia, Section 2.2-2322 and expended for purposes as stated in those provisions. The budget is prepared on the cash basis.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and is not categorized as to credit risk. The LGIP funds are held in pooled accounts and accordingly, are also not categorized as to credit risk as defined by Statement 3 of the Governmental Accounting Standards Board.

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - General Fund presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

| | <u>General Fund</u> |
|--|---------------------|
| Fund balance, cash basis, June 30, 2002 | \$ 944,665 |
| Add: Prepaid expenses and other receivables | 782,799 |
| Deduct: Accrued expenses and unearned revenues | <u>(373,911)</u> |
| Fund balance, GAAP basis, June 30, 2002 | <u>\$ 1,353,553</u> |

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

| | |
|---|----------------------|
| Original appropriation as allotted | \$ 19,786,356 |
| Supplemental appropriation actions: | |
| Add: Special allotment for Virginia Is for Freedom Campaign | 810,000 |
| Net personal service cost and Technology funds transfers | <u>233,321</u> |
| Total additions | <u>1,043,321</u> |
| Less: FY 2002 Budget reductions | 1,890,364 |
| Telecommunications, productivity, and management savings | 424,665 |
| FY 2002 Year end savings | <u>296,762</u> |
| Total subtractions | <u>2,611,791</u> |
| Revenue provided by the General Fund of the Commonwealth | <u>\$ 18,217,886</u> |

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

| <u>Capital Assets Being Depreciated</u> | <u>Balance July 1, 2001</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2002</u> |
|---|---------------------------------|-------------------|------------------|----------------------------------|
| Leasehold improvements, furniture and equipment | \$ 238,935 | \$ 171,680 | \$ 27,855 | \$ 382,760 |
| Less: accumulated depreciation | <u>153,800</u> | <u>30,897</u> | <u>20,517</u> | <u>164,180</u> |
| Leasehold improvements, furniture and equipment, net of accumulated depreciation | <u>\$ 85,135</u> | <u>\$ 140,783</u> | <u>\$ 7,338</u> | <u>\$ 218,580</u> |

6. OPERATING LEASE COMMITMENTS

The Authority is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements amounted to \$164,932 for the year. A summary of minimum future obligations under these lease agreements as of June 30, 2002, follows:

| <u>Year Ending June, 30</u> | <u>Operating Lease Obligations</u> |
|--------------------------------------|--|
| 2003 | \$ 160,802 |
| 2004 | 139,770 |
| 2005 | <u>38,738</u> |
| Total future minimum rental payments | <u>\$ 339,310</u> |

7. INSTALLMENT PURCHASES OBLIGATIONS

The Virginia Tourism Authority has two installment purchase contracts to finance the acquisition of office equipment. The term of the first contract is for five years ending November 2005, and the second is for five years ending August 2007. Interest rates are 10.31 percent and 4.196 percent respectively. Installment purchases obligations activity for the fiscal year ended June 30, 2002, was as follows:

| <u>Balance July 1, 2001</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2002</u> |
|---------------------------------|------------------|------------------|----------------------------------|
| <u>\$ 32,821</u> | <u>\$ 23,003</u> | <u>\$ 10,829</u> | <u>\$ 44,995</u> |

Principal and interest payments for fiscal years subsequent to June 30, 2002 are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2003 | \$ 11,130 | \$ 3,050 | \$ 14,180 |
| 2004 | 12,047 | 2,133 | 14,180 |
| 2005 | 13,052 | 1,128 | 14,180 |
| 2006 | 7,919 | 213 | 8,132 |
| 2007 | <u>847</u> | <u>4</u> | <u>851</u> |
| Totals | <u>\$ 44,995</u> | <u>\$ 6,528</u> | <u>\$ 51,523</u> |

8. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2002, was as follows:

| <u>Balance July 1, 2001</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2002</u> |
|---------------------------------|-------------------|---------------------------|----------------------------------|
| <u>\$ 374,235</u> | <u>\$ 265,683</u> | <u>\$ 272,338</u> | \$ 367,580 |
| | | Due within one year | <u>293,987</u> |
| | | Due in more than one year | <u>\$ 73,593</u> |

9. PENSION PLAN AND OTHER RETIREMENT BENEFITS

The Authority is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2002, the Authority's net pension obligation was \$129,287.

Plan Description

All full-time and part-time salaried employees of the Authority participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent and cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also

provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5.0 percent member contribution. The Authority does pay the member contribution, which amounted to \$151,480 (5.0 percent of total creditable compensation of \$3,029,607). In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2002, was 4.24 percent from July 1, 2001 to December 31, 2001, and 0.00 percent from January 1, 2002 to June 30, 2002. The amount contributed by the Authority for the six months ended December 31, 2001, was \$64,497 on compensation of \$1,521,162.

10. RISK MANAGEMENT

The Authority is exposed to various risk of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Authority is insured for these risks through commercial insurance policies. Further, the Authority is insured for workers compensation and from loss from employee actions by an insurance policy issued by the Chubb Group, the Great Northern Insurance Company. Policy coverage from loss from employee actions is \$50,000 per year with a \$500 deductible.

The Authority participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by the Department of Human Resource Management (DHRM). The Authority pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA TOURISM AUTHORITY
Richmond, Virginia

Rita D. McClenny, Interim Executive Director

Roy Knox, Director of Finance and Administration

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